1934

Economic Conditions
Governmental Finance
United States Securities

New York, September, 1934

General Business Conditions

THE developments in the business situation during the past month have done little to clear up the outlook for Fall, which is now the question of chief concern to business men. The chief causes of uncertainty are the indifferent prospects for the capital goods industries; apprehension as to the effects of the drouth; and the general difficulty of foreseeing how business will be affected by governmental policies. At present conservative views are evidently uppermost. Merchants are cautious, and in the wholesale markets Fall buying has been sluggish, the general policy having been to place conservative orders at first, with the intention of reordering later if business justifies it.

This slow start has restrained the upswing in the apparel and similar industries which usually develops about this time, and has prolonged the Summer dullness. The wool goods season is disappointing, the leading manufacturer of staple goods having announced a series of shutdowns to keep production in line with demand. Mill sales of cotton goods have exceeded output, and if the labor situation permits operations will be stepped up in September, now that the limitation of machine hours has expired. But the expansion is likely to be moderate. Other consumer goods markets are sluggish, and sentiment is affected accordingly.

On the other hand, it is plainly too early to charge off the Fall season as a loss. No warrant for extreme pessimism is to be found either in retail trade reports thus far, or in examination of the probable purchasing power of consumers this Fall. The volume of merchandise being moved is lower than last year, but dollar sales are running fairly even, and it will be remembered that August 1933 was an exceptionally active month. Consumers then were laying in household supplies and "beating the gun" on price advances much as merchants were doing. This year trade is more orderly, and with allowance for that factor retail reports are as good as there was any reason to expect.

Since consumers have not been rushing the season, the prospect for September and October sales gains appears to be fair, and if they develop merchants will be back in the markets, and conditions will be all the better for the conservative policies followed in the early season. Business activity has now been declining for about four months, at first slowly, and in the past two months rapidly. Naturally inventories have been reduced during this decline, excess stocks liquidated, and other adjustments made which are favorable to a pickup. The situation is the reverse of one year ago, when merchants had covered their requirements for months ahead and industrial operations had been overstimulated to a degree that made recession inevitable.

Heavy Industries Show Declines

The durable goods industries for the most part have supplied little encouragement. Steel operations have dropped to new low levels during the month, the official figure for the last week being 19.1 per cent of capacity. Consumers are using up steel purchased during the second quarter, and the extent of early fourth quarter requirements, which will give the next stimulus, is problematical. Railroad orders are largely filled, tinplate operations are lower, and the automobile industry is in the period of recession which sets in prior to the changeover to new models. To be sure, the automobile companies are giving ground stubbornly against the seasonal trend. The decline in their sales is less than usual, providing a bright spot in the business situation. However, dealers are well stocked, and decreasing production during the remainder of the 1934 season is to be expected.

Construction contract awards remain at low figures. The daily average in the first half of August, according to the Dodge compilations covering thirty-seven Eastern States, was 45 per cent below the Spring peak, reached in

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March, and was also below a year ago except for certain non-residential contracts. These figures do not represent current building expenditures and employment, which lag behind the award of contracts, and are now higher than at any other time this year. They show, however, that construction is still the chief laggard in recovery.

It is recognized that as long as the capital goods industries give as little employment as at present a vigorous and general recovery is not to be expected, and few count upon much help from that quarter in the weeks ahead. However, it has been demonstrated during this depression that the industries making goods of everyday use can enjoy a considerable if temporary revival, even while the heavy industries are depressed.

Drouth Effects on Farm Income

Unquestionably the topic of most absorbing interest in the trade outlook is the drouth. Its continuance during the forepart of August in most of the worst affected areas, and throughout the month in some, has raised the damage far above the expectations that were held earlier in the season. The August 1 Government report revealed a decline of nearly 11 per cent in crop prospects during July, and a further drop has probably occurred. In any event the crop yields will be the lowest in forty years, pasture and range conditions are much the worst on record, and a greater land area and more farmers are involved than in any drouth ever before known.

The effect of such a calamity upon purchasing power over the country is a question which business evidently needs to examine very thoroughly. The consequence in the case of a farmer whose crops have completely failed is of course a total loss of purchasing power, destroying his ability to give any support to business except as he spends relief payments and consumes food and apparel received from the Government. However, those who have good crops will receive better prices, and hence have more purchasing power. The average of prices on the farm on August 15, according to the Department of Agriculture, was 20.8 per cent above last year, and the highest since April, 1931.

By reason of these price advances the whole body of farmers will have more money to spend this year than last. The cash income received from sales of farm products during 1933, according to the Bureau of Agricultural Economics, was $5,027,000,000, including $159,000,000 of benefit payments. The Bureau has also essayed a preliminary estimate of income during 1934, based on present prices. The tentative result is that this year's income, including $500,000,000 of benefit payments, will be $5,950,000,000. This is an increase of over $900,000,000, or nearly 20 per cent. Part of this increase, perhaps 10 to 15 per cent on the average, will be absorbed by higher prices for goods purchased, but a net gain will be left.

During the first half of this year farm cash income including benefit payments was $2,576,000,000, compared with $2,032,000,000 in the same period of 1933. According to the foregoing estimates the second half year's figures will be $3,374,000,000, compared with $2,995,000,000 a year ago. This is the figure which is of importance to Fall trade.

It may surprise those who are but casually familiar with the sources of farm income that these figures are relatively so large, but more of the income than is generally realized is received in States outside the drouth area, or from products not especially affected, whose prices have advanced in greater proportion than the supply has declined. Only about a third of the farm income in 1933 was derived from the States worst affected by the drouth, namely the tier from the Dakotas and Montana down to the Mexican border, between the Rockies and the Mississippi. Another third came from the partially affected East Central States, the remaining third from all others, largely unaffected. Only in the first group will farm income this year be lower than last. Elsewhere it will be larger.

The agricultural importance of the Eastern industrial States is frequently not realized. It may be news to some that farmers in the North Atlantic and New England States alone received as much for their milk, eggs and chickens in 1933 as all the wheat growers in the country received for their wheat. In the same year the dairy cattlemen of New York State received more for their milk than the hog raisers of Iowa for their hogs. Throughout the depression fruits and vegetables have put more cash in farmers' pockets than all the grains combined, or all cotton and cottonseed combined, and the fruit and vegetable crops this year are generally good except in the heart of the drouth country. The east and west coasts and the Great Lakes States of course lead in fruits and vegetables. Sixty per cent of the income from this source comes from States almost totally unaffected by the drouth, according to the 1933 showing.

An indefinite number of citations could be given on this theme, but the purpose is only to point out its trade implications. The deficit in the income of the worst drouth States, compared with last year, will be more than made up elsewhere, and the drouth States themselves may not fall behind when relief disbursements are added.

Evidently the dislocations of purchasing power will be considerable. Business will be worse in some sections and better in others. The ability of urban dwellers to buy non-farm

products will be diminished to the extent that a larger proportion of their income is required to pay for foods and other farm goods. In fact the cost of the drouth in great degree will be transferred to city people and consumers, through the bonus and relief payments and higher food costs.

Effects of Price Advances

The effects of the drouth on the economic situation of course depend greatly upon the conditions that existed at its outset. The farm markets were badly unbalanced within themselves, since supplies of the chief cash products were piled up in excess of demand, and also in relation to other markets, since prices were so low as to put the farmer at a disadvantage. To the extent that the drouth damage eliminates surpluses and raises farm prices more nearly to the accustomed relationships with other prices, it tends to restore the balance within the economic system and promote the exchange of goods. Obviously its effects are very different than if it had come in a year when reserves of farm products were inadequate, had raised farm prices above a parity with other prices, and hence had put the consumer at a disadvantage and thrown economic relations further out of balance.

The rise in the price of food may be interpreted in the light of the foregoing. It will be at the expense of the industrial population, but through the operation of the codes the industrial workers have already had increases of compensation which have advanced prices at the expense of the farmer, and higher farm prices tend to redress the balance. It is not anticipated that there will be a swing to the other extreme.

The drouth has had little to do with the sensational rise in hog prices to an average of $7.55 in Chicago, which is the feature of the food markets. The short receipts now running are the consequence of the heavy liquidation beginning with the pig slaughter last Fall, and continuing thereafter because hogs were worth much less than corn and feeding was unprofitable. Along with this goes a general bullish view of the outlook, since the total pig crop this year has been estimated by the Department of Agriculture at 32 per cent less than last, and is now expected to be even smaller, in view of the failure of the corn crop since the survey was made. Moreover, high prices and shortage of feed will lead to marketing of hogs at light weights. It is likely that the total weight slaughtered in the year beginning October 1 next will be not much more than half that of the year now closing. This is pretty good evidence that the hog markets will take care of themselves. Also, hog prices have gained on corn prices, and though hogs are still low the ratio is the highest in a long time.

Farm Surpluses Reduced

The chief instances of unbalanced farm market situations which the drouth has corrected or started toward correction were in wheat, cattle and cotton. In wheat the improvement is not only in this country, but in the world position. Harvests are smaller everywhere, especially in Central and Southeastern Europe. Acreages planted in Australia and Argentina are less and conditions none too favorable. The Northern Hemisphere crops, excluding Russia and China, are about 350,000,000 bushels, or 11 per cent less than last year, and Southern Hemisphere prospects suggest a world total 400 to 450 million smaller, and 750 million smaller than two years ago. This will permit the first reduction, outside the United States, in the surplus accumulated since 1927. Moreover, the world crop of rye, a competing bread grain, is 250,000,000 bushels, or 25 per cent, smaller. These changes will put the wheat situation on a sounder basis than for many years, and relieve most markets of the surpluses which have been plaguing them.

In the cattle situation the effect of the drouth will be to bring the downturn in cattle numbers this year instead of about two years hence, when it would be expected if the cycle were left to work itself out naturally. Federal purchases in the drouth States will run from 5,000,000 to 7,000,000 head of cattle. The beef markets will have larger supplies to absorb, but deducting Government-owned relief holdings commercial stocks will likely be smaller than last year. During the first 8 or 10 months of 1935 total meat supplies will probably be 20 to 30 per cent below the five year average, but before that period is reached the markets will have full supplies, furnished by liquidation of cattle due to lack of feed. For the same reason supplies of milk and dairy products and eggs will be reduced, but adequate.

Cotton likewise is looking up statistically. The Government estimate as of August 1, placing the crop at 9,195,000 bales, was lower than generally expected, and reports since have continued unfavorable. This indicates a total supply of American cotton for this season of 20,000,000 bales, which compares with the peak of 26,000,000 two years ago, and is just about the average of pre-depression years. The unsatisfactory feature of the cotton outlook for the American producer is the continuing increase in foreign growths, which rose from 9,600,000 bales in 1931-32 to 12,600,000 in 1933-34, a new high record, and will show a further increase this season to 13,225,000, according to preliminary estimates by the New York Cotton Exchange. At this rate the debate in agricultural circles as to whether

Southern farmers can or should continue growing cotton for export on a world price basis will soon be largely academic.

All the commodities mentioned are very important in the economic life of this country. They have accumulated in depressing surpluses because price and trade relationships have been broken down, the exchange of goods has been checked, and purchasing power accordingly destroyed. The way in which the improvement has been brought about, namely through a great natural calamity accompanied by subsidized curtailment of production, is not the best way nor a lasting way. But undeniably it gives a chance for a fresh start on the farm problem, unencumbered by unbalanced market situations.

The Relief Charges

One remaining aspect of the drouth may be considered which is unqualifiedly a misfortune. It adds to the burden of relief. The expenditures of the Federal Treasury which it makes necessary, while they will give support to trade, nevertheless are irrecoverable. They will add to the difficulty in balancing the budget, prolong the uncertainty as to the fiscal situation, and remain a charge upon the economic system both as to interest and principal until the borrowed funds are paid off.

There is no reason, however, to close upon a note of pessimism. This examination of the drouth situation indicates that no collapse of Fall trade is threatened, and there is no evidence that the larger manufacturing corporations and retail organizations expect a further setback. If Fall trade is disappointing it is less likely to be due to drouth than to the obstacles still in the way of revival of the capital goods industries, to labor troubles and uneconomically high costs and prices for finished goods, and to the fiscal and other uncertainties connected with governmental policies.

Costs Must Be Reduced

In a report to the stockholders of the General Motors Corporation last month President Alfred P. Sloan, Jr., reviewing the six months from January to June said that the trend in industry generally had been to higher operating costs, and expressed the opinion that the public is not in possession of purchasing power to sustain selling prices commensurate with such increase. This is in accord with the action of the motor car industry last Spring in abandoning an attempt to cover its own rising costs by an increase of prices, but he enforced his opinion with a cogent statement which deserves the widest attention for the general principle which it enunciates. He said that he regarded the situation as one to be looked upon as "a challenge" to the managers of industry to "establish even higher standards of operating efficiency on the one hand, and to develop new and more effective products on the other," and drove this statement home by adding:

> The objective should be not merely a more favorable relationship of cost to selling prices, but what is of more vital importance, real selling prices themselves must be reduced—they must be brought within the range of a greater number of buyers. In no other way can industry be stimulated to higher levels of activity—in no other way can the unemployment question be intelligently attacked—at least that is the thinking of General Motors and its approach to the problem.

We venture to say that the "challenge" described extends not only to management but to every factor in the economic system that is interested in restoring the volume of trade. The "managers" of business are not in control of all the conditions affecting prices, as the National Recovery Administration is able to testify. Peace, understanding and cooperation between all elements are needed.

The paragraph quoted from Mr. Sloan embodies not only the spirit that wins under difficulties but a reasoning that is based upon all industrial experience and particularly American experience. It always has been possible to improve the methods of industry, no matter how much improvement had been previously accomplished, and in no other country have the economies of mass production been demonstrated as they have been here. None of the industries can afford to accept a smaller volume of production as their settled fate. Every step in that direction will see their costs and all their difficulties increase, while on the other hand larger volumes and lower selling prices will simplify all of the problems.

The country has been struggling in depression for now about five years, and the cause of it should be plain to everybody. The people cannot buy each others' goods because the price relations are out of order, and one side of the disjointed relationship is as badly off as the other; for the groups which have relatively low prices are unable to buy and the groups which have relatively high prices are unable to sell. One side has lost its purchasing power and the other side has lost its market and its jobs, with the result that both sides are appealing to the Government for support, while the Government confessedly can support itself only by borrowing. There is no remedy except in the balanced price-relations which enable the people as a whole to buy everything that can be produced with everybody fully employed. This is not a fancy picture, but the situation which naturally results when the industrial system is in balance.

It is an indisputable fact that the disruption of price-relations between rural products and urban products and services, including costs

of transportation and government, has been the principal cause of the fall of trade and employment. It is not that farmers as a class have suffered more than wage-workers, but that they have inevitably suffered together because they could not trade with each other. We have referred briefly heretofore to an article by Professor Gustav Cassel, of the University of Stockholm, and an economist of high international standing, written by him three years ago, in which he discussed this subject with great clarity. Sweden, although a relatively small country, is one of high industrial efficiency and has had in the past an important volume of high-class industrial exports, going to countries whose buying power has been almost wholly in the products of agriculture and the other primary industries. Its leadership in dairy equipment, notably milk separators, may be noted. Sweden's trade has suffered like that of Great Britain and this country. Professor Cassel's discussion dealt with this situation and we quote from his summing up as follows:

> Broadly speaking, this relative change in prices has been to the disadvantage of the colonial world and in general of agricultural countries. The prices of their products are very low in proportion to the prices of the products which the industrial countries have to sell. This situation is rather strikingly represented in the Swedish indices for important export goods. For March, 1931, the first-mentioned index is 89, whereas the latter index is still as high as 125. Thus, on an average, the export goods are 40 per cent above the import goods in price, taking 100 in 1913 as a basis for the price level of both kinds of goods.
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> This relative change in prices, which is so unfavorable for the colonial world, naturally reduces its purchasing power. It impedes the sale of the industrial products of Europe and the United States, resulting in considerable unemployment in the industrial countries. Thus the shortage of employment for the labour of the industrial countries is to be regarded as a consequence of the cost of that labour being so high that the purchasing power of the colonial world and the agricultural countries no longer suffices for the complete sale of the products. The observations made above with regard to colonial countries, are, of course, applicable in the main to agriculture in the industrial countries. * * * **The entire world economy has thus been put out of balance.**

This situation was caused of course by the great expansion of agricultural and other primary products induced by the high prices of the war period. The wage-workers of the cities are not responsible for the fall of these prices, but they have suffered terribly by the depression, and the question is not one of fixing the responsibility but of finding a remedy.

With unprecedented stocks of farm products accumulated over the world, the outlook of two years ago for a recovery of farm products seemed very dark, but two short crops, while visiting hardship upon many persons and raising living costs for all, are having the effect of clearing away the surpluses which unbalanced the situation. There is a prospect that with normal crops next year the farm situation as to stocks and prices will be reestablished, at approximately the accustomed parity with other things, which is the basis of normal prosperity.

It is of the first importance, however, for everybody to understand that the promised gain will be in the restoration of the normal trading relations between agriculture and the other industries. The farmer can live, pay his debts and regain his purchasing power only if fairly balanced relations are restored; while if everything which he must buy shall advance in price as much as his own products, the unbalanced condition will remain as it has been for the last several years,—the same deadlock, the same unemployment, the same problems of all kinds.

The improvement in the situation extends around the world, including all of what Professor Cassel has called the "colonial world," i.e., the producers of natural products, who trade these products for the products of the more highly industrialized countries. It is of the utmost importance that the latter countries shall do nothing to cause a backset to the movement. It must be considered that the problem is not so much that of actual prices as of price-relations. Neither group gets its compensation independent of the other; they both get it *from each other*. Neither can gain at the expense of the other; either will have its highest prosperity through completely reciprocal relations.

It should be evident that consumption and employment cannot be increased by any policy which increases costs and prices. As a means of solving the unemployment problem, a policy of shortening the work-week and spreading employment is a mere camouflage, and when hourly wages are increased to protect the purchasing power of the workers, it becomes the most costly policy of relief that could be devised, for it either becomes a special burden upon struggling industries or increases the cost of living to the entire population. It has no lifting power whatever and must prolong the misery and dangers of the depression.

This situation calls for precisely the spirit and policy of Mr. Sloan's address, and all groups and classes are alike concerned in supporting it. A highly specialized industrial system cannot be prosperous without intelligent cooperation between all its parts. The alternative is to go back to primitive industry neighborhood trade, and the standard of living of India and China.

Money and Banking

In August the Government announced two further steps in carrying forward its silver program, as follows:

1. **The nationalization order of August 9, requiring all stocks of silver in continental United States (except silver coin, fabricated silver, that which**

is held under license and that owned by foreign governments and central banks, and other minor holdings) to be turned in at the mints within 90 days, the Government to pay holders 50.01 cents an ounce.

2. The announcement on August 11 of the Government's intention to issue silver certificates against silver stocks already in the Treasury, such stocks being reported as 62,000,000 ounces.

In taking over the silver stocks at 50.01 cents an ounce, it should not be supposed that the Government is altering the coinage value of silver, which remains fixed by law at $1.29 an ounce. What happens is that the Government is exacting an unusually large seigniorage, or charge for service of converting the silver bullion into money. Ordinarily when seigniorage is charged on a standard metal the charge is less than 1 per cent. In this instance it is being set at 61 8/25 per cent, which leaves 50.01 cents an ounce for the holder of the metal. Ever since December the Government has been buying the new domestic production under a similar program, except that 50 per cent has been taken for seigniorage, leaving producers 64½ cents an ounce, and this procedure is being continued. Progress by the Treasury in acquiring silver under the nationalization order is revealed by the announcement that between August 9, the date of nationalization order, and August 24, 59,553,110 ounces of silver was received. This silver, acquired at 50.01 cents an ounce, and revalued at $1.29 an ounce would yield a seigniorage profit of $47,000,000.

The foregoing announcements by the Government with respect to silver were the subject of widespread comment in the financial community and among investors generally. So far as the program as announced is concerned, the immediate consequences would not appear to be very important. This is because the amount of additional currency which the program calls for is comparatively small.

Assuming that private stocks of silver subject to Government order amount to 100,000,000 ounces (information as to exact totals is not available), the taking over of this silver at 50.01 cents an ounce would mean the issuance of approximately $50,000,000 of new money. In addition, the issuance of silver certificates against the 62,000,000 ounces of silver already in the Treasury at $1.29 an ounce,—the legal coinage ratio—would call for approximately $80,000,000 of such certificates. This, together with the $50,000,000, would mean $130,000,000 of new money in all.

Inasmuch as the total money in circulation already amounts to $5,300,000,000, it will be seen that another $130,000,000 or 2.5 per cent of the total, would not affect the situation very much.

Moreover, since the currency already in circulation is adequate for the needs of trade, it is unlikely that these additional issues can be kept in circulation. Unless there is a pick-up in business they will either be promptly redeposited in the banks and retired from circulation, or they will force an equivalent amount of other types of money into retirement. In either case, the redundant currency, coming back to the banks, would be deposited by them in the Reserve Banks, with the effect of increasing still further the excess reserves. Since the excess reserves of all banks already amount to something over $2,000,000,000, the raising of this total by another $130,000,000 would not alter the situation materially.

An unfortunate consequence, however, of the new silver measures has been to make investors more nervous about the currency. This has a tendency to keep capital in hiding, and it has been a factor in the reaction of the Government bond market.

U. S. Purchases of Silver Abroad

With the domestic stock of silver absorbed by the Treasury, interest now centers upon the possible extent of silver purchases by our Government in the world market. That such purchases have already been made is indicated by a recent shipment from London to New York of 400 tons of silver, valued at £1,125,000, said to be the largest cargo of silver ever to cross the Atlantic.

It is estimated that in order to build up our monetary stock of silver to the level of one-fourth silver to three-fourths gold, as directed in the silver legislation of last Summer, it will be necessary to acquire approximately 1,300,000,000 ounces of silver, of which possibly a billion would have to be purchased abroad. At the present world price of 50 cents an ounce, this would cost $500,000,000 and the cost would increase in step with any increase in the price of silver that might occur under stimulus of the buying program.

We have commented repeatedly in previous issues upon the inflationary possibilities of adding a large quantity of silver to our already enormously enlarged monetary base. To the extent, of course, that the purchase of silver abroad leads to the export of gold, the further building up of our monetary stock would be avoided. Such a development, however, involving an exchange of gold for silver at a value ratio nowhere else recognized could not be regarded as in the interest of the United States.

The fact is that while silver reserves would be as effective as gold in facilitating credit expansion, they would probably prove ineffective as reserve in time of emergency. In a period of capital exports, such as 1931 and 1932, this country would not be able to settle its adverse balances with silver. This is because there

would be no way of disposing of the silver abroad except in the open markets which would not be in a position to absorb the increased supplies save at a great sacrifice of values. As a consequence, such balances would have to be settled in gold, which always has a market because the mints of the world will buy it in unlimited quantities at a fixed price. In time of crisis this centering of demand upon our gold supply might make it impossible for the United States to stay on the gold standard.

Money, Bond Prices and Exchange

The volume of excess funds in the money market increased during August, though at a less rapid rate than in July. Reserve balances of the member banks and excess reserves reached new peaks during the month, the latter touching just under $2,000,000,000.

Money rates in general showed no change from the low levels that have been current for some time. Yields on short-term Treasury bills firmed up slightly, the weekly offerings in the latter part of the month being taken at 0.22 to 0.24 per cent against the low of 0.07 in July.

Government bonds began to show reactionary tendencies late in July and continued during August about 1 to 1¾ points under their Summer high points, with Treasury purchases cushioning the market on declines. Revival of inflation fears, stimulated by the announcements on silver, was undoubtedly a factor in the lower prices of Government bonds and high grade corporation issues. The fact that the drop in prices occurred in the face of large and increasing supplies of funds available for investment indicates the importance of the factor of confidence in maintaining the market for Government securities. Impending conversion operations of the Treasury are unusually heavy over the next two months, including $525,000,000 maturing certificates on September 15, and $1,200,000,000 of called Liberty Fourth 4¼s on October 15.

Foreign exchange values of the dollar declined during the month, following announcement of the new silver policy. Rumors of an impending further devaluation once more became rife, and by August 24 exchange quotations were down to the export point. At this level $7,830,000 gold was engaged for export on the 24th and 25th. On this evidence that gold export licenses would be granted freely, and that no change in the currency was imminent, the dollar rallied, but subsequently weakened, and as we go to press gold shipments are continuing in moderate volume. An additional possible influence in connection with gold shipments has been a demand for foreign exchange to pay for Treasury purchases of silver.

Improvement in Primary Producing Countries

In previous paragraphs of this Letter we have stressed the importance of the rise of agricultural prices in overcoming the effects of reduced yields. This improvement in the position of primary producers has not been confined to this country alone. Quite generally throughout the world the status of the great foodstuff and raw material producing areas has undergone a betterment, and prospects in a number of these countries are now regarded as the most favorable since 1929. While the prices received have not always been higher in terms of gold, nevertheless the money received has been good for ordinary purchases and for liquidation of indebtedness payable in depreciated currencies.

More than one-half of the people of the world get their purchasing power by the sale of their primary products in the markets of their own and importing countries. Ever since the collapse of prices after 1929 these primary producing countries have been under severe economic pressure, because of the low prices of their products, and their inability to buy the products of other countries has been *a* chief cause, if not *the* chief cause of the continuance of the depression. If these countries can begin to get good prices for their products, one of the most serious of the causes of world disequilibrium will be in process of correction.

The Situation in Argentina

Among the South American countries, Argentina stands foremost in point of progress to date towards recovery and prospect of further gain. A large producer and exporter of agricultural products, including grains, flaxseed, and meats, this country occupies a special position to benefit from the high prices resulting from short supplies elsewhere. Last year a good wheat crop was sold at advanced prices, and indications are that this year's crop will bring a cash income substantially larger even than that of last year. Corn prospects are likewise favorable, while, with another short flax crop in the United States, good returns for Argentine flaxseed and flaxseed oil producers seem assured.

The good prices for Argentina's great staple products have stimulated internal trade, and this in turn has strengthened the hand of the Government and improved the political situation. Government finances are in the best shape in years, the tax collection system has been improved, the internal floating debt consolidated, and a substantial part of the debt converted to a lower interest basis. Externally, the economic position of the country has been fortified by a favorable trade balance

which in the first seven months of this year was 30 greater than in the corresponding period of last year. This has eased the exchange situation, and brought about a gradual strengthening of the peso. On August 22 the Argentine Government announced that it was anticipating payments in London amounting to £855,000 not due until October 1, thereby canceling the balance of a £5,000,000 short-term loan granted by British bankers in 1929. Including this payment, Argentina's combined dollar and sterling short-term indebtedness is reported to be down 75 per cent since 1930.

Other Latin-American Countries

In Chile, likewise, conditions have shown improvement. The nitrate situation is better, surplus stocks both in Chile and in foreign countries having been reduced. During the past year shipments of nitrates have increased considerably. Copper mining has picked up, and gold mining has become a factor under stimulus of the gold premium. The Government is encouraging diversification of industry, and has been settling surplus population from the northern nitrate section on southern farms. Unemployment has practically disappeared. Political conditions have been stable during the past two years. Government finances have greatly improved, the budget having been balanced both last year and this year, exclusive of service on the foreign debt and income from the nitrate industry. For the first time in many years, Government income is now independent of the nitrate industry which used to supply 70 per cent of all revenues. With an export balance of trade for the first five months of 1934 nearly double that of the same period of last year, in pesos, the exchange situation has become easier, and remittances to foreign creditors are now coming forward more frequently.

Brazil also has made progress, due primarily to improvement in the coffee situation. Since 1932 stocks of coffee in the interior have declined from 26,000,000 bags to 18,000,000 bags. With a short crop indicated this year, and the continuation of the destruction program, prospects are for a further reduction in stocks to less than 10,000,000 bags by June, 1935. Shipments over the past year have been heavy, and at higher prices, thus improving the balance of payments. Domestic industry has been active and bankruptcies and protests have been at record low figures. A feature of the Brazilian situation is the encouragement which the government is giving to crop diversification, particularly with respect to cotton, the production of which is estimated for the season 1933-34 at 807,000 bales, against 373,000 bales the previous season. Political conditions have become more stable with the better economic conditions. While collections in foreign currencies continue difficult, money is coming out a little more freely than before,—one of the surest indications of fundamental improvement.

Both Peru and Mexico have benefitted from the higher prices for copper and precious metals. In the case of Peru, better returns from cotton have contributed towards recovery, and settlement of the Leticia boundary dispute with Colombia has been an added factor tending to restore confidence. Business in Mexico has been excellent, with steel and textile mills operating at capacity. Besides the increased demand for mineral products, the lower exchange ratio with the dollar, and increasing tourist expenditures have been influential as a business stimulant.

The New Cuban Trade Treaty

The conclusion of the new trade pact between the United States and Cuba, reducing the tariff on Cuban sugar from 1½ cents a pound to 9/10ths of a cent, against 1.875 cents on other foreign sugar, and granting additional concessions on Cuban rum, tobacco, fruits and vegetables, should mark a real turn for the better in that distressed country.

That the people of the United States have a large responsibility for the conditions existing in Cuba must be clear to anyone familiar with the development of trade relations between the two countries. As early as 1903, the United States, recognizing Cuba as a natural source of sugar for this market, concluded with that country a reciprocity treaty granting Cuban sugar a preferential rate of 20 per cent against all other foreign sugar in return for satisfactory concessions on our products entering Cuba. On the strength of this treaty, which seemed to put the economic relations between the countries on a safe and assured basis, capital flowed freely into Cuba, and the sugar industry underwent a broad development.

The treaty which has just been signed represents a further step in a program inaugurated early this year for dealing with the sugar situation as a whole and for restoring trade relations between Cuba and this country. At the last session of Congress legislation was enacted which provided for production control and the allocation of quotas among the various areas supplying the American market. Under this Act quotas were set for 1934 at 1,700,000 long tons for Cuba, 1,620,000 tons for domestic beet and 2,440,000 for the insular possessions. Inasmuch as the Cuban quota is less than the actual imports of any years save 1932 and 1933, it is evident that the new trade agreement, together with the quota assigned, falls considerably short of a full solution of Cuba's economic difficulties. Never-

theless, the steps that have been taken are the most constructive by far that have been initiated, and for this both parties are deserving of commendation. On the basis of the treaty it is predicted that the gain in Cuban exports during the first year of the agreement might amount to as much as $50,000,000.

All of which has a definite significance to the United States, for Cuba was formerly one of our best customers, ranking sixth in the year 1924. In that year Cuba took $199,800,000 worth of merchandise from us, including $51,000,000 agricultural products, $20,880,000 cotton manufactures, $37,400,000 iron and steel, including machinery, and $9,560,000 vehicles, mostly automobiles. By 1933 the over-all total of our exports to Cuba had shrunk to $25,100,000. It will be seen therefore that the United States is vitally interested in anything calculated to increase Cuban buying power.

Economic Improvement Elsewhere

It would be possible to go on and cite other countries producing primary commodities that have been showing improvement, but unfortunately the limitations of space will permit only a brief reference to some of them. Australia was one of the first countries to put its house in order and to point the way towards recovery. New Zealand has removed all restrictions on exchange.

In India, the sugar industry has shown a tremendous advance under tariff protection, jute and tea have been better, and Imperial preference has benefitted the linseed industry. Cotton has been favored by the new trade agreement with Japan. The position of the Indian Government with respect to commitments in London has been steadily improved owing to the heavy exports of gold since England went off the gold standard.

Rising prices for rubber and tin are favorable influences in Malaya and Straits Settlements.

Canada also belongs in the category of countries affected by higher prices for agricultural products and minerals. While this year's harvest of wheat promises to be disappointing, on account of drouth, the carryover amounts to over 200,000,000 bushels, so that the country will probably have an exportable surplus of 300,000,000 to 350,000,000 bushels for which she will receive considerably higher prices. Business activity, as measured by production indexes, has shown some reduction since the peak, paralleling the trend in the United States, but in June were only 4 per cent under the 1926 average. Higher prices for gold, nickel and silver have stimulated mining activities.

Adverse Trends and Influences

Contrasting with these instances of improvement that have been recorded above are the numerous other countries where conditions are no better, or even have become worse. Europe, by and large, is still a troubled continent. Great Britain, of the leading countries of Europe, has staged the most outstanding recovery, but even there the disquieting suggestion is heard that the revival may have passed its peak. The Scandinavian countries are relatively well off. In the gold bloc countries, on the other hand, and in Germany, economic pressure has increased rather than diminished.

Within the past month the sudden weakness of sterling has revived fears of a renewed outbreak of competitive currency depreciation. Should this develop, the security of the gold bloc currencies would be seriously threatened. Unfortunately the trade of the world is still being stifled by fear, by instability of currencies, and by extreme nationalistic policies which find expression in all kinds of obstacles to the free movement of goods and credit. Whether the favoring influences that have been described will be able to make headway against these paralyzing handicaps time only will reveal.

The Profits of Industry

What is the truth about the distribution of the vast aggregate of values annually produced by the industries of the United States? Is it an arbitrary and monopolistic distribution, controlled through ownership of the capital employed in production, or is it a competitive distribution dominated by the consuming public, with the producers of all the varieties of goods and services vying with each other for the favor of consumers? Is it a distribution which on the whole is governed by economic law and serves the general welfare, or does it tend to accumulate the means of production in few hands and to "exploit" the masses of the people for the advantage of the property-owning few?

Did Excessive Profits Cause the Depression?

It is said that the industries in their prosperity failed to distribute purchasing power freely enough to enable the products to be bought and consumed, and that excessive profits, invested for the enlargement of production, increased the glut. According to the argument, if wages had been higher or prices lower, consuming power would have been greater, industrial expansion would have been smaller and the crisis would not have occurred.

The simplicity of the argument gives it an appearance of plausibility which is deceptive. In the first place, it should be noted that the profits are not alleged to have been withheld from use, but used for the improvement and enlargement of the industries, for the pro-

duction of goods for the market—which has not in the past been considered an objectionable purpose. This is not a refusal to compete. Second, expenditure for the enlargement of industrial capacity of itself accomplishes a distribution of purchasing power. It disburses money for the employment of labor, in the construction of buildings, equipment and other facilities of production; in short, this distribution of purchasing power is similar to that which occurs by any employment of wage-earners. The latter come into possession of this purchasing power, while the industries part with it for new facilities.

No fallacy is more persistent in economic discussion than this assumption that disbursements of profit, either for investment or otherwise, do not distribute purchasing power; for, whatever follies individual investors or spenders may commit, purchasing power cannot be used without making employment.

In this case the critics cannot know what might have been the effect of a further advance of wages and prices upon employment at that time; if wages had been increased prices probably would have been increased, or not lowered as they were, and unemployment was not unknown even in those years, and it developed rapidly after the expenditures in question began to decline.

Investment of Profits an Old Story

There is nothing either new or reprehensible in the practice of investing profits for the enlargement of productive capacity. It has been going on from the beginnings of the so-called capitalistic system and with highly beneficial results to society. All industrial progress has come about in this manner. The great textile industry of this country has been built up in this way; likewise the iron and steel industry, and the automobile industry in much shorter time. It is by reason of the rapid increase in the capacity of the industries and in the volume of products that the per capita consumption of goods by the American people is what it is today in comparison with the consumption of one hundred years ago and in comparison with the consumption of all other countries. Such investment is one of the methods by which the economic law accomplishes a broad distribution of the benefits of increasing wealth. The profits converted into industrial plants, with the employment thus provided, become the means of increasing the supplies of consumption goods, the form of wealth that ministers directly to the comfort and welfare of the people.

The supplies of capital are always increasing—in modern times much faster than population—and the only remunerative employment open to the new supplies is in production for the public market. The theory that capital will not compete with capital is constantly refuted. Supplies of newly available capital are constantly destroying old capital and taking its place, rendering better and cheaper service.

The theory that the crisis was caused by the greed of business supposes that wages, prices and profits and the relations between them are arbitrarily determined by employers, which is not so. They are governed by changing conditions with which employers contend as best they can, but do not control. Wages, prices and profits were all under the influence of abnormal conditions during the war and years following, with the relations between them to a great extent incalculable. The pace of activity and of changes was much above normal, and the substitution of new capital for old was correspondingly rapid. The great rise of wages inevitably induced much investment for the purpose of lowering costs, which intensified competition, and was the chief factor in the movement complained of.

If one producer finds a way of reducing his costs, his competitors are constrained to adopt it or find another. The railroads, notwithstanding reduced earnings, and with more equipment than they can use, are now buying new motive power and fast-running passenger trains as a means of protecting their declining passenger earnings against the competition of airways and motor cars, and finally of each other. Investments for the purpose of reducing costs are a constant feature of competitive business and if successful are not opposed to the public interest. As a result of such expenditures the prices of manufactured products were generally falling in the post-war period. In deciding upon the advisability of such outlays the managers of business must act upon their judgment at the time, while the critics have the privilege of passing judgment at their leisure after the event, and often do so with incomplete knowledge.

An Example of Misinformation

There is reason to believe that many of the misleading generalizations about the economic system which float about in print have their origin in statements or statistics which are authentic as far as they go, but do not go far enough to give the entire truth. Thus our attention has been called to a newspaper report of a formal address recently made by a gentleman of distinction, from which we take the following:

"The figures of the Federal Reserve Bank of New York for about 500 corporations show an increase of net profits of from $2,480,000,000 in 1926 to $3,347,000,000 in 1929," while the net profits of corporations in general in the United States "increased from $6,640,000,000 in 1923 to $9,130,000,000 in 1929."

"Real wages did not rise materially if at all after 1923 despite continued increases in productivity." The foregoing terse statements from an authoritative re-

view tell graphically the chief cause of the crisis: they also point to the remedy. But the question is not solely one of social justice in the distribution of the product of labor. It is likewise one of obtaining the full fruits of labor for just distribution.

We need not name this speaker, for many similar statements are being made by other persons of equal prominence, and our comments are not intended to be personal. The Federal Reserve Bank of New York is good authority and the figures for 1923 and 1929 evidently are from Bulletin 50 of the National Bureau of Economic Research, Inc., which also is good authority. The sentence about real wages after 1923 did not originate with either of these authorities. The figures are authentic, but they are not all of the figures given by these authorities or all that are needed to present the truth of the situation which this speaker undertook to describe. Probably he took the figures secondhand from some other user who, like himself, did not appreciate that the volume of business handled and the percentage of profit thereon are important factors to know. According to United States Treasury statistics, the gross sales or income of all corporations increased from $118,564,000,000 in 1923 to $160,622,000,000 in 1929; aggregate net income after taxes increased from $5,720,000,000 to $7,950,000,000, and anybody may verify for himself our calculation that the proportion of net income available to the corporation treasuries was 4.53 per cent of gross income in 1923 and 4.70 per cent in 1929.

We give below a composite table, the figures of which are taken in part from the United States Treasury Reports and in part from Table 1 of Bulletin 50 of the National Bureau of Economic Research, Inc. We give the figures for net income before and after taxes as taken from Bulletin 50, because this evidently was the original source of the figures for 1923 and 1929 given in the above extract. It will be seen that these are for *net income before taxes*. Bulletin 50 does not give the figures for gross income, but also gives a calculation of the ratio of aggregate net income *after* taxes to the aggregate net worth of the corporations, in each of the six years from 1927 to 1932. We gave these figures in our May, 1934, number, the percentage for 1929 being 6.2 and the average percentage for the six years, 2.6.

The United States Government figures and National Bureau figures differ as stated in the note attached to the table. The differences are not great, but appear in the two columns of "net income after taxes."

The percentage figures of net income in the last column of this table relate the profits to the selling value of the products, or gross income, the calculation being based on the Government figures of income.

Gross and Net Income of All Corporations in the U. S.

(In Millions of Dollars)

Year	Sales or Gross Income	Net Income Before Taxes	Net Income After Taxes		Net Income After Taxes to Gross (Percent)
	U. S. Treasury	N. B. of E. R.	N. B. of E. R.	U. S. Treasury	U. S. Treasury
1919......	99,919	9,320	6,910	6,241	6.25
1920......	118,206	5,920	4,280	4,248	3.59
1921......	91,249	640	— 70	— 244	—0.27
1922......	100,921	5,070	4,300	3,986	3.94
1923......	118,564	6,640	5,720	5,371	4.53
1924......	119,229	5,740	4,870	4,481	3.76
1925......	134,260	7,990	6,830	6,451	4.80
1926......	142,130	7,840	6,630	6,275	4.41
1927......	144,398	6,840	5,730	5,379	3.73
1928......	152,781	8,670	7,500	7,042	4.61
1929......	160,622	9,130	7,950	7,546	4.70
1930......	138,312	1,960	1,260	840	0.61
1931......	107,515	—2,850	—3,240	—3,687	—3.43
1932*....	65,652	—4,600	—4,930	—4,846	—7.38

Fourteen year average of Net Income after taxes to Gross: 2.42 per cent.

*Preliminary estimates.

Note: The figures of National Bureau of Economic Research exclude tax-exempt corporations and life insurance companies, while the Government figures cover all corporations but do not include inter-corporate dividends and other tax-exempt income.

It will be seen that the changes in the net aggregate incomes of all corporations from 1923 to 1929 were not extraordinary when judged by the ratio of net income to the volume of business handled. In 1924, 1926 and 1927 the profit percentages were lower than in 1923, and in 1928 and 1929 slightly higher, with the highest rate in 1925. These fluctuations were the result of many influences, and obviously not calculated or controlled.

It must be regarded a remarkable circumstance that in a year when the industries were operating so nearly at capacity as in 1929, and therefore with so little apparent necessity for price-competition, the percentage of profit should have risen so little as it did over the preceding years. The aggregate of profits was substantially larger, and every business man will understand the gain naturally resulting from a rise in the volume of business to the practical limit of plant capacity. Because the increase of an exceptional year is handled upon the same fixed investment, and with a comparatively small increase in the usual items of overhead costs, the average unit cost of the entire year's production is reduced, and if all other conditions remain the same, aggregate net income and the rate of net earnings should rise together. In this case, notwithstanding the large rise in the aggregate net, the rise of the rate is small, which means that "other things" did not remain the same, but exerted a counteracting influence.

The fact is that while the volume of business was rising—largely as a result of the very expenditure of profits discussed above—the prices of many products were declining, also as a result of the very investments complained

of. The investments were accomplishing the intent to reduce costs, but were also reducing prices. Moreover, wage-rates, although not rising as rapidly as in the years to 1920 were still tending upward. The net result of all changes, including the rise in volume of production, was the slight rise in the profit-rate.

Referring to the statement in the extract (apparently quoted, although no authority is named) saying that "real wages did not rise materially if at all after 1923, despite continued increases in productivity," we quote the following from Professor Frederick C. Mills, of Columbia University, one of the most careful and competent of authorities upon the movement of wages and prices in recent years. The extract is from page 555 of the volume entitled "Economic Tendencies," of which further mention is made in this article:

Starting from a relatively high level at the beginning of 1922, the general index of real wages advanced by 2.1% a year during the eight years following. Among employees of manufacturing establishments, real wages per capita advanced by 1.4% a year.

An increase of 2.1% a year over eight years would be an aggregate increase of 16.8%, and an increase of 1.4% a year for eight years would amount to an aggregate of 11.2%; or a yearly average increase of 2.1% for six years would amount to 12.6%.

On page 384 of the same volume appears table 155 which shows the average selling prices of the products of the manufacturing industries to have declined 9.2% from 1923 to 1929. The author of the sentence about real wages quoted above probably was unacquainted with this information from "Economic Tendencies" and possibly with the fact that "real wages" may rise by a decline of living costs as well as by a rise of money wages.

The Significance of the Figures

Obviously the figures given in the extract do not prove what they are said to prove. There was no such increase of profits in proportion to values created as the comments of the extract imply. Moreover, the table shows that in only one of the fourteen years under review were the corporations as a body able to retain as profit as much as 5% of their aggregate gross income.

Prior to the establishment of the income tax system and to recent extensions of census inquiries, much less information was available about profits and the distribution of income than now, but all that is available for earlier years goes to show that, on the whole, business profits were lower in the fourteen years covered by this table than in any previous period of equal length. This means that the owners were receiving a diminishing share of an increasing production, obviously to the advantage of other consumers.

If the profits of the eleven years in which there were any profits are averaged, the result is 4.08%, while including the three deficit years of the period, the average for all is 2.42% of gross income. This means that in the actual experience of the fourteen years all corporations of the United States paid out as operating expenses 97.58 cents of every dollar of gross income received, and had 2.42 cents left as net earnings. The heated controversy over their profits relates to this narrow and uncertain margin.

The table, therefore, refutes the theory that private ownership of capital affords a monopolistic control over the industrial product, also the theory that increasing profits brought on the depression. It supports the belief that the economic system is effectively governed by economic law, when the latter is not interfered with by influences arising outside the scope of its control,—notably influences within the scope of the political governments, as illustrated by war and legislation upon money and trade.

The Services of the Economic System

There is one more table of figures which should be included in this article, the same to be taken from the book already referred to above, viz; "Economic Tendencies."*

*The full title of this excellent work is "Economic Tendencies in the United States; Aspects of the Pre-War and Post-War Changes." It is a review covering the thirty-year period 1899-1929. Prepared by Frederick C. Mills, under the auspices of the National Bureau of Economic Research, Inc., 1819 Broadway, New York; 1932; 639 pages; price $5.00.

This book contains an introduction by the Committee on Recent Economic Changes. This Committee sponsored the publication in 1922 of a study of "Business Cycles and Unemployment" and also the production of the two-volume work entitled "Recent Economic Changes," published in 1929. The editorial and statistical labor upon both of these works, as in the case of "Economic Tendencies," (1932) was done by the National Bureau of Economic Research, Inc. Several changes in the membership of the Committee have occurred meanwhile, but the list of names signed to this Introduction, with their principal business connections, was as follows:

Arch W. Shaw, Publisher, Chicago, Chairman; Renick W. Dunlap, Assistant Secretary of Agriculture; William Green, President, American Federation of Labor; Julius Klein, Assistant Secretary of Commerce; John S. Lawrence, Merchant and Member of Congress; Max Mason, President, Rockefeller Foundation; Adolph C. Miller, Member, Federal Reserve Board, and formerly Professor of Economics, University of California; Lewis E. Pierson, Chairman of the Board, Irving Trust Company; John J. Raskob, Member of Finance Committee, General Motors Corporation; Samuel W. Reyburn, President Associated Dry Goods Corporation of N. Y.; Louis H. Taber, Master, The National Grange; Daniel Willard, President, Baltimore & Ohio Railroad; Clarence M. Woolley, Chairman of the Board, American Radiator and

Standard Sanitary Corporation; Owen D. Young, Chairman of the Board, General Electric Company; Edward Eyre Hunt, Secretary.

In justice to the members of the Committee we quote the following from the introduction:

For the scientific competency of this study—the gathering of the material brought together in the present volume, its interpretation, and the conclusions drawn therefrom—the National Bureau of Economic Research is solely responsible; but the Committee on Recent Economic Changes is happy to join with the Bureau in the publication of a study throwing such a flood of light upon the nature of recent economic movements in the United States, and the features and forces marking their essential character.

Professor Mills has divided the full period under review into three sections, to-wit, 1899-1913, 1913-1922 and 1923-1929, which enables him to analyze the pre-war years, the years of the war including the slump period 1920-1922 and the post-war years, separately. The volume is a mine of information regarding all the economic developments of the time, illumined by the impartial comments of a trained and able economist.

The outstanding feature of the entire period, is the marvelous increase of production and particularly of production per worker employed in the industries. The account of it reads more like a chapter from Arabian nights than a prosaic record of industrial achievement. Basing his calculation upon "value added by manufacture," as reported by the census (thus eliminating changes in cost of material) and allowing for variable items in cost of manufacture and price-changes affecting the selling value of the product, the statistician is able to isolate and determine the relative volume of physical production in each census year, and to calculate the gains per worker resulting from improvements in methods of production. He has constructed a table of index numbers based upon 1899 as 100 which shows the relative volume of physical production and of production per wage-earner in all manufacturing industries in each census year from 1899 to 1929. The census of manufactures was taken every fifth year until 1919 and after that every second year.

Census Year	Physical Volume of Production	Number of Wage Earners	Output per Wage Earner
	(Full period	(Computed))	
1899	100	100	100
1904	120.2	108.1	111.2
1909	154.5	130.0	118.9
1914	176.3	136.1	129.6
1919	225.1	169.4	133.0
1921	186.3	136.2	136.9
1923	275.6	177.3	155.5
1925	282.2	169.1	166.9
1927	287.2	163.6	175.7
1929	331.4	164.2	189.7
Yearly Inc.	+ 7.0%	+ 2.1%	3.0%

From Tables pp. 26, 192, 290.

The total increase in physical volume was 231.4 per cent, or an average of 7 per cent per year over the 30 years while the increase of all population was but 61.5 per cent, which seems to satisfactorily dispose of the assumption that purchasing power was not increasing. The increase in number of wage-earners employed in these industries was 64.2 per cent or 2.1 per cent per year, which was a slightly higher rate than that for the increase of population, and seems to dispose of the theory that the increased productive capacity was causing unemployment. The increase of physical product per wage-earner was 3 per cent per year and the products were moving into consumption.

No argument is necessary to establish the proposition that production must precede distribution, or that the rise in the general standard of living which everybody desires is dependent upon the increasing capacity of the economic system to provide the goods and services required. It is impossible to divide any more than can be produced, and there is need for a more general understanding of how the gains in productive capacity are accomplished and distributed.

Professor Mills makes another calculation, of the changing rate of production per head of the population, and comments upon the gain as follows:

Making allowances now for the rate of change in population, we obtain an estimate of 2.4 per cent as the average annual rate of increase in physical output per head of the population between 1922 and 1929, as compared with a rate of 1.1 per cent between 1901 and 1913. Expressed in other terms, these figures indicate that, at the pre-war rate, 63 years would have been required for a doubling of the individual's share in the annual output of the country, while, at the rate of increase prevailing between 1922 and 1929, such doubling would have required only 29 years.

In terms of cold figures the margin between average rates of gain of 3.1 per cent and of 3.8 per cent, between rates of 1.1 per cent and 2.4 per cent, may not look impressive. But the difference is of the highest significance. Over an eight-year period the American economy was moving forward at a rate perhaps never surpassed, a rate which represented a potential doubling of the physical income of the average citizen once every 29 years. For a period of almost a decade a rate of advance was achieved which gave promise of material comforts for the citizens at large on a broader scale than had ever before been attained.

It will be noted that the period which Professor Mills mentions as showing the highest gains was the very period in which the economic system was making the expenditures for improvements which have been the subject of criticism.

Nobody will want to withhold from the manual-labor wage-workers the share of credit which properly belongs to them for the remarkable record of these years. It may well be that the average efficiency of the entire body is increasing, but this achievement was accomplished by the economic system *as an organization,* including the workers of every class, the thrifty people whose self denial provided capital, the research workers in every field of science, the inventors and planners, the

organizers, the management and all the staff, in short by the team work.

It is to be considered that these gains were accompanied by a general reduction of the weekly hours of labor in the urban industries from an average close to 60 in 1900 to an average between 48 and 49 in 1929. Another significant feature of the period was the increased employment of power in the manufacturing industries from an average of 2.4 horsepower per worker in 1900 to 3.8 in 1930. It cannot be reasonably questioned that management, scientific research, inventive genius and increasing supplies of capital were the principal factors in this increase of productive capacity.

It is pertinent to say that an important share of the additions to capital came out of the corporation profits, either from the treasuries direct or from the proceeds of dividend payments to individual shareholders. Corporation investments from net earnings are of the nature of enforced savings for shareholders, in the sense that net earnings are applied to this purpose instead of to the payment of cash dividends, which individual shareholders might prefer to use for other purposes. All of such corporate investments in the period under review were made out of the average profits shown by the table, although it may be presumed that the major portion came from the companies whose profits were above the average.

The Division of Gains

The statistics of the Mills table relate to the manufacturing corporations only, while those of the first table above relate to all corporations. We have heretofore given (in the April and May numbers) the figures for the profits of the manufacturing corporations over the fourteen years, 1919-1932, which averaged 3.76 per cent of their combined gross income. Taking from this table the profit figures for the eight years named by Professor Mills in the above quotation, we find their average to be 4.93%. Thus while this important section of the economic system was obtaining an average net profit on its gross business of 4.93% per year, it was—by its management, initiative, enterprise, investments, and the competition to excel—increasing the physical volume of production, per head of the country's population, at the rate of 3.80% per year, compounded, without other gain to itself than is included in the profit percentage. Moreover, the efficiency gains are permanent and cumulative, the gains of each year serving as the basis of future improvements.

Somebody of course will rise up to say that this is unbelievable, since it is common knowledge that business is not directed by philanthropic motives, etc., etc. This however is not a question of motives, but of facts and economic principles. The record supports the affirmation that new capital makes its gains at the expense of the old investments which are being constantly eliminated, and that the gains of industrial progress are constantly distributed to the consuming public.

Much is said of surplus and idle industrial capacity, with erroneous implications. Idle capacity may result from disorder in trade relations, as at present, but at all times a large part of the nominal capacity of industry consists of more or less obsolete equipment. Machinery begins to deteriorate in competitive capacity almost from the day it is installed, because better machinery is being constantly designed to compete with it. The new gradually crowds out the old, the latter eventually becoming worthless, because the labor required to operate it can be more usefully employed otherwise. Obsolete equipment may figure nominally in capital assets, but it has ceased to be capital when it no longer has earning power. The process of substitution is always going on, the rapidity depending upon the supply of new capital available, and even more upon the importance of the innovations. It did not take the automobile industry long to put the carriage industry out of business, and what is said here about the distribution of the values created by industry has been well exemplified in the history of the automobile industry.

The Mills table shows in definite figures the accomplishments of the so-called capitalist, or capitalistic, system in thirty years, but the same process has been going on ever since man began to use tools, cooperate in production, and like other animals, lay by food against the Winter time. The terms mentioned are often used with opprobrious meaning, but they are appropriate in the sense that the system is characterized by a constantly increasing employment of capital. The flint-edged tools, the use of metals, the forked-stick plow, the wheel, the lever, the sail, the canoe, the hoe, the sickle, the horse-drawn machine, the steam engine, the sewing machine, the telephone, the electric motor, the motor car, etc., were steps in the development leading up to the thirty-year period of the table — to the more abundant life which this period has demonstrated to be possible.

The table shows not a single break in the trend of increasing production per head of the workers during the 30 years which it covers, and doubtless if the statistical record could be extended backward to the beginnings of the industrial organization the trend would be similar all the way, although rising more and more rapidly to and through the 30-year period. And if the figures of business profits were available for the same length of time,

they undoubtedly would show a trend similar to that of the 14-year record of corporations, i.e., an increasing aggregate of profit, but representing a diminishing share of the increasing product. Established trends of such regular character, the causes for which are clearly discernible, are accepted as the basis of the conclusions known as economic law.

At every seeming halt in this development, complaints have been heard that increasing powers of production were causing unemployment or some other disturbance, but never yet has the economic organization been equal to the task of satisfying the wants of the population. It is safe to say that notwithstanding the increase of productive capacity in the last 100 years the expansion of wants has more than kept pace. Indeed, government statistics are frequently quoted which indicate that the amount of money-income required to support a family in ordinary comfort according to present standards exceeds the amount which would be available per family if the total national income, as reported by other government statistics, was divided equally. If this is so, it would seem that the time has not arrived for concluding that the economic system which has accomplished all of this development shall be either discarded or chained and restricted to the use of only a part of its productive powers.

The Present Disorder

The critics of the economic system cannot impeach the figures given above, and the figures afford a complete vindication of the principles upon which the system is based and of the system's normal performance. Criticism is based mainly upon the present state of disorder, which has no mystery about it to anybody who understands the principles upon which the system is based and the far-reaching derangements in it occasioned by the war. The system from its earliest beginnings has been based upon the advantages of cooperation in production and trade, and the increasing efficiency of the system as its relationships multiplied have inevitably signified an increasing degree of interdependence between all the parts. The parts must all sell to and buy from each other, and have nothing to buy with but their own commodities and services; hence any disturbance of the relations between them interferes with the flow of trade and slows down all the activities. No such disturbance as that caused by the Great War ever had been known since the system had even approached its present development.

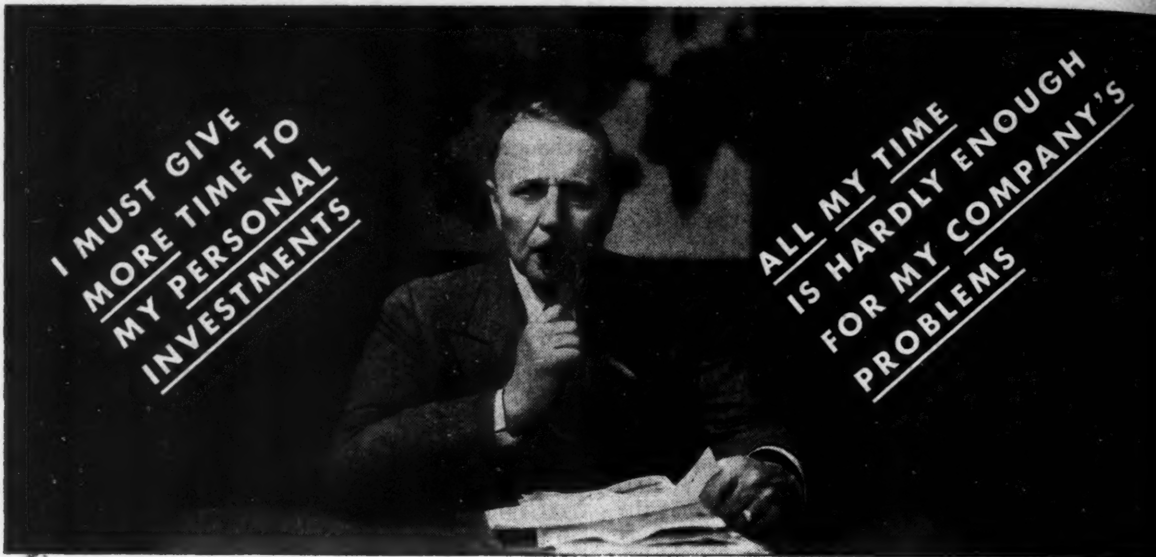
It is said that the war has been over since 1918, but in fact there has been no stable equilibrium since 1914. Following the violent changes of the war time in wages, prices, debts and all economic relations, came the post-war period of reconstruction, inflation and speculation—all closely related to the war and as abnormal as the war-time itself—and finally the period of settlement for all of the violations of economic law—an accounting that has had nothing like it in the history of mankind.

The effects of those violent changes have been described in these columns repeatedly, but never set forth so impressively as in Table 9 of last month's letter, which showed the losses of income suffered by this country's economic system from 1929 to 1932. The aggregate income of the nation fell from $83,000,000,000 in 1929 to $39,000,000,000 in 1932, and in the three years 1930, 1931 and 1932 the proprietors of business, in their efforts to "carry on," paid out $23,198,000,000 in excess of all they received. The principal cause was confusion in price relations which blockaded trade.

The Way of Recovery

Recovery from every period of disorganization experienced in the past has been accomplished by the free and independent efforts of every industry to reduce its costs and prices to enable the public to buy more of its products. Improvements in organization and equipment, not for the purpose of dispensing with labor but to increase the efficiency of labor, as demonstrated in the Mills table, and of increasing the supply of comforts for the entire population, always have been an important factor in recovery. They help in overcoming the maladjustments between the different parts of the system, which have caused the disorder. Always the problem is to restore the exchangeability of products. And so now it seems reasonable to believe that instead of accepting the present volume of production as permanent, and either placing a ban upon future improvements in the methods of production or planning to nullify their effects by reductions in operating time, the aim should be to regain the balanced relations which will afford full time and employment for all. It is just as practicable to "restore the parity" between the industries on the basis of the 40 or 48 hour week, with the comparative *abundance* which it will provide, as upon the basis of a 30-hour week, with the *scarcity* which it must impose.

THE NATIONAL CITY BANK OF NEW YORK


I MUST GIVE MORE TIME TO MY PERSONAL INVESTMENTS
ALL MY TIME IS HARDLY ENOUGH FOR MY COMPANY'S PROBLEMS

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